



State of Vermont  
Department of Financial Regulation  
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## MEMORANDUM

To: Green Mountain Care Board

From: Stephen W. Kimbell  
Commissioner, Department of Financial Regulation

Date: April 19, 2012

Re: Recommendation for Approval of BCBSVT Third Quarter 2012 Medical Trend Filing

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### **1. Introduction**

The Green Mountain Care Board (GMCB) was created by Act 48 of the Vermont Legislature in 2011 to oversee a broad range of health care reforms in Vermont, including the eventual transition to a publicly-financed single payer system known as Green Mountain Care. The reforms mandated by Act 48 are designed to increase Vermonters' access to quality health care services while at the same time containing the rapid rise of health care costs. Although Act 48 will be implemented in coordination with the federal Affordable Care Act, its reforms go significantly beyond those required by federal law, particularly in the areas of payment reform and cost containment.

During the transition to single-payer health care, proposed rate increases for major medical health insurance policies will be reviewed by the Commissioner of Financial Regulation (formerly the Commissioner of Banking, Insurance, Securities and Health Care Regulation). If the Commissioner finds that the proposed increase satisfies the applicable statutory requirements (see "Standard of Review" below) the Commissioner is required to seek approval for the rate increase from the GMCB. This represents a change from prior statutory procedure, which gave the Commissioner the sole discretion to approve proposed health insurance rate increases. If the Board approves the recommended increase, the Commissioner is responsible for implementing the Board's decision.

### **2. Brief Description of Company and Filing**

BlueCross BlueShield of Vermont (BCBSVT) is a non-profit hospital and medical service corporation that provides major medical, medicare supplement and prescription drug coverage to



approximately 139,000 Vermonters. The company offers a variety of plans and products in the individual, group and association markets in Vermont.

The present filing is not a premium rate filing but rather what health insurance actuaries call a medical trend filing. A medical trend filing represents the percentage by which a health insurer expects its per capita twelve-month medical and prescription drug costs to increase for policyholders who enroll or renew coverage during a particular time period, in this case the third quarter of 2012. BCBSVT's third quarter 2012 (3Q12) medical trend, if approved, will be applied as a multiplier to the medical claims component of the company's existing rates in order to determine the price that will be charged for each product renewed or sold during the third quarter of 2012. The trend filing, while not a rate filing as such, is thus an important component of rate filings for products that will be sold to Vermont policyholders during the third quarter of this year.

### **3. Standard of Review**

Section 4512(b) of Title 8 V.S.A. provides that the rates submitted by a hospital service corporation such as BlueCross BlueShield of Vermont must not be "excessive, inadequate or unfairly discriminatory or fail to meet the standards of affordability, promotion of quality care, and promotion of access pursuant to section 4062 of this title." This standard is also applicable to major components of a rate filing such as the medical trend.

The terms "excessive," "inadequate" and "unfairly discriminatory" each have well-accepted definitions that are codified in the insurance laws of most states. Thus, rates are generally considered excessive if they are likely to produce unreasonably high profits for the insurance provided or if expenses are unreasonably high in relation to the services rendered. Rates are considered inadequate if they are insufficient to sustain projected losses and expenses in the class of business to which they apply. Finally, rates are unfairly discriminatory if price differentials for groups of insureds fail to reflect equitably the differences in projected losses and expenses for those groups.

For the purpose of applying the statutory criteria set forth in 8 V.S.A. § 4062, the Insurance Division has adopted the following definitions.

- A. Affordable: A rate change (or a trend factor change) is affordable, if:
1. The overall proposed increase is less than 10.0% higher than the previously approved overall change; and
  2. Following review, the rate or trend factor change is found to be actuarially justified.
  3. A proposed rate or trend factor increase of ten percent or greater over the previously approved change is presumptively not affordable, unless, following review, the department finds that the proposed increase is



actuarially justified and is necessary to sustain projected losses and necessary expenses for the class of business in question.

- B. Promotes quality care: The Department does not supervise providers. In the context of rate regulation, a rate or trend factor, whether new or a proposed change, promotes quality care if the policy forms with which the rate or trend factor will be used have been filed with and approved by the Department. Department approval of the policy forms means that all health care benefits mandated by Vermont law have been provided.
- C. Promotes access to health care: A rate or trend factor, whether new or a proposed change, promotes access to health care if it is affordable, as defined above, and if the policy forms with which the rate or trend factor will be associated provide consumers an opportunity to seek an independent review of adverse coverage determinations.

#### **4. Analysis and Recommendation**

##### **a. Summary of Oliver Wyman Actuarial Analysis:**

BCBSVT's Third Quarter 2012 medical trend filing was submitted to the Department on February 16, 2012 and was deemed complete, following review by the Department's contract actuary, Oliver Wyman, on March 19, 2012. In the filing, BCBSVT proposes trend factors (increases) of 3.7% for medical claims, 5.5% for pharmacy claims and 4.0% for combined medical and pharmacy claims. For the purpose of comparison, BCBSVT's approved factors for the 2Q12 trend filing were 3.9% for medical claims, 5.1% for pharmacy claims, and 4.1% for medical and pharmacy claims combined.

Oliver Wyman's actuarial review (copy attached) concludes that the proposed 3Q medical increase of 3.7% is actuarially reasonable because it is consistent with BCBSVT's observed experience for medical claims, is 0.2% lower than BCBSVT's approved 2Q12 medical trend, and is significantly below national trends for medical increases. In fact, BCBSVT's proposed medical trend for the third quarter places it in the bottom one percent of more than 100 health care insurers covering 119 million lives surveyed by Oliver Wyman in January, 2012.<sup>1</sup>

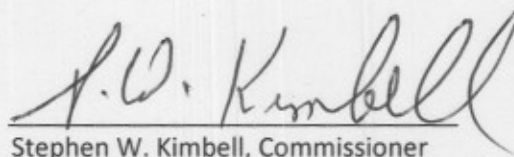
Regarding the proposed pharmacy trend of 5.5%, Oliver Wyman notes that the actual increase in BCBSVT's pharmaceutical costs in recent years has been in the range of 2.5%-3%, but concludes that this lower rate of increase is the result of downward pressure exerted on a one-time basis by a newly-implemented utilization management program for prescription drugs and is not reflective of the company's expected pharmaceutical expenses going forward. Oliver Wyman concludes that BCBSVT's proposed pharmaceutical trend of 5.5% is actuarially reasonable in light of national pharmaceutical trends (9% median increase), but suggests that the Department consider lowering the requested trend since it is higher than the 5.1% increase approved in the 2Q12 filing, despite being based on similar claims data.

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<sup>1</sup> Source: "Carrier Trend Report," Oliver Wyman Actuarial Consulting, January 2012.

**b. Commissioner's Recommendation:**

The Commissioner recommends that the Green Mountain Care Board approve BCBSVT's 3Q12 medical trend filing, after reducing the company's proposed pharmaceutical portion of the overall trend from 5.5% to 3.5% to more closely parallel the company's actual prescription drug expenses.<sup>2</sup> Oliver Wyman's actuarial report concludes that the proposed 3Q trends satisfy Section 4512(b)'s requirements of not being excessive, inadequate or unfairly discriminatory. This conclusion is supported by the Department's comparison of the proposed trends to the trends approved in the 2Q12 filing. In addition, the 3Q trends, with the proposed pharmaceutical adjustment, will help produce affordable rates because they are among the lowest in the country and are well below the 10% threshold at which rates must be reviewed for reasonableness under the Patient Protection and Affordable Care Act. Finally, since the policy forms with which the trend factors will be used provide all health care benefits mandated by state law and provide policyholders with an opportunity to seek an independent review of adverse coverage decisions, the proposed trends satisfy the statutory requirements of providing quality care and promoting access to health care.



Stephen W. Kimbell, Commissioner

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<sup>2</sup> Reducing the pharmaceutical portion of the proposed trend to 3.5% would result in a 3.67% trend for combined medical and pharmacy claims, which is 0.43% lower than the 4.1% trend for combined claims approved in the 2Q12 filing.





## **SUPPLEMENTAL INFORMATION**

### **1. Insurance Company's Plain Language Summary**

Not applicable to this rate filing because there is not a proposed increase of 5.0% or greater for the combined medical and pharmaceutical trend, even prior to the proposed reduction of the pharmaceutical portion of the trend. 8 V.S.A. §4062(b).

### **2. General Information Pertaining to Rate or Trend Filing**

1. Company: BlueCross BlueShield of Vermont.
2. Title of Rate Filing: Trend factor filing for third quarter of 2012.
3. Rate Proposal: 3.7% medical trend, 5.5% pharmacy trend and 4.0% combined medical and pharmacy trend.
  - a. New Rate: No.
  - b. Rate Change: Yes.
4. Range of Proposed Rate Change: Not applicable.
5. # of Policies Impacted: 7,220 (existing)
6. # of Covered Lives Impacted: 14,664 (existing)

### **3. Filing Information**

1. Date of Submission: 2/16/2012.
2. Date Assigned to Rate Analyst: 2/17/2012.
3. Date Filing Deemed Complete: 3/19/2012.
4. Date Filing Posted on Dept. website: 2/24/2012.
5. Date Ending Public Comment: 3/16/2012.

### **4. Financial Information**

Financial statements provided by BSBCVT in its third quarter 2012 Supplemental Exhibits filing show that BCBSVT's risk based capital (RBC<sup>3</sup>) was 703.0% as of November 30, 2011. BCBSVT's underwriting results exhibit for December 2010 through November 2011 show a loss plus expense ratio for the company's entire block of business of 98.4% (the loss plus expense ratio is consistent with the company's target).

### **5. Actuarial Review**

The rate filing was reviewed by the Department of Financial Regulation's contracted actuary. The actuary's opinion is included as an addendum to this report and marked as Attachment 1.

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<sup>3</sup> RBC is an indicator of the capital adequacy of a company. Vermont law prescribes specific remedial actions that may or may not be taken, either by the company or state regulators, when the RBC ratio falls below 250%.



**6. Public Comment**

The filing was not subject to public comment because the requested increase for combined trend factor was less than 5.0%. 8 V.S.A. §4062(c)(2).

